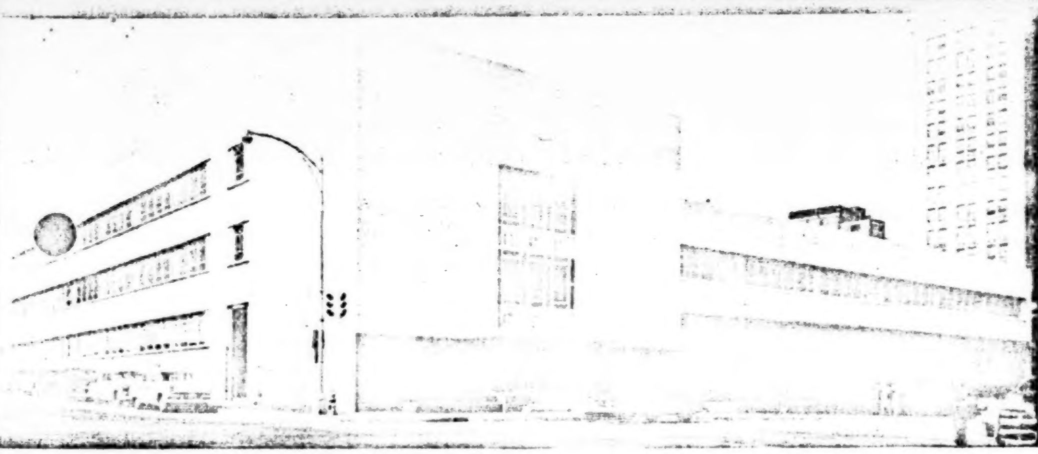

THE ATLANTA ECONOMIC REVIEW

APRIL, 1957

VOL. VII NO. 4

AN EVALUATION OF THE SOCIAL RESPONSIBILITY OF BUSINESSMEN CONCEPT

by

Harold L. Johnson*

INTRODUCTION

As Gunner Myrdal stated in **The American Dilemma**[1] and more recently in **An International Economy**,[2] discussions in social science should begin with making explicit the value premises upon which the discussions and analyses are based. We should make clear at the outset what we regard as desirable ends or goals for society. In many analyses, supposedly purely descriptive and matter-of-fact, value premises are bootlegged into the discussion, thereby affecting subtly the framework and conclusions of the studies. In order to avoid any misunderstanding, this study of the "social responsibility of businessmen" concept is based on the avowed value premise that the freedom, dignity, and worth of individual human beings should be fostered and encouraged. Stemming from this general proposition is the view that power should be widely dispersed in society, enabling individuals to develop fully their own destinies, capacities, and abilities. This value statement is relevant for our times, for it is one of the distinguishing characteristics of the continuum of culture in which we live called Western Civilization. This value premise can be derived from the faith that man is created in the image of God, or it can be obtained from other cosmologies. For our discussion here, however, the pertinent point is the value statement itself and not its derivation.

The criteria of social practice emphasizing the importance of the individual as stated here is admittedly vague and incomplete, but with it we can move further in the discussion. The affirmation of the importance of the individual requires that we condemn situations where some individuals "control," have power over, or induce actions in others. Of course, some power or control by some over others is an essential feature of any social organization and is necessary to a degree if an individual is to develop fully his abilities and capabilities.[3] Yet the definition of Utopia "as a society in which any man can say to any other, 'Go to hell,' but no man wants to say it, and no man need go when it is said,"[4] while perhaps vulgar in its statement, underscores the desire for a wide distribution of power in society.

One virtue of a competitive free enterprise economy is that within such an economy individuals are rationed small amounts of economic power and influence over others. The free enterprise rationale states that people would like to exert market power for personal gain, but the unseen hand of rivalry between buyers, sellers, and buyers and sellers prevents these dreams of power from materializing. If someone persists in seeking a higher price from consumers than that of rival producers or in selling shoddy merchandise, the market will threaten him with bankruptcy. If an enterprise persists in seeking to pay wages lower than those paid by other firms for labor of similar skill, the enterprise will find it very difficult to recruit a labor force sufficient to produce its products. Businessmen may decide what goods are going to be produced and with what proportions of the various economic resources; but these decisions are made, first, under the direction of consumers who tell entrepreneurs what they want through the process of bidding up some prices while letting others fall, and, second, under the

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1. Volume II (New York; Harper & Bros., 1944) pp. 1041-1064.
2. (New York: Harper & Bros., 1956), pp. 336-339.
3. A thorough discussion of the problem of control and power can be found in **Politics, Economics, and Welfare**, by Robert A. Dahl and Charles E. Lindblom, Yale University Press, 1954, pp. 93-126.
4. R. H. Tawney, **Equality** (London: George Allen & Unwin Ltd., 4th edition), p. 177.

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pressures of market forces which give varying values to scarce factors of production. According to the competitive rationale, then, the market or price system restricts and limits the economic power which individuals want to exert over others.

In contemporary industrial society, however, the conditions which exist in reality and the conditions necessary for the perfect functioning of the market apparatus diverge. Along with wide distribution of resources among small scale enterprises, our economy is characterized as one with mammoth enterprises, and as one which has a relatively high degree of concentration of production and employment. One investigator reports that there are 260 corporations out of a total business population of nearly four million firms which employ 10,000 or more employees, with these 260 enterprises hiring nearly one-fourth of total business employment.[5] The largest five per cent of the country's manufacturing establishments employ nearly two thirds of all manufacturing employees.[6] Another economist estimates that the largest 200 non-financial corporations own or control 47 per cent of non-financial corporate assets and hold between 20-25 per cent of national income-producing wealth excluding that held by government and consumers.[7] The largest one hundred industrial corporations,[8] additionally, obtain about 30 per cent of all industrial corporate profits after taxes.[9] There may be considerable debate among economists about trend toward or away from large enterprise, but there seems to be general agreement that along with millions of small businesses the American economy possesses large firms with a disproportionate share of the nation's employment, assets, and production.

In an interdependent economy, furthermore, the investment, inventory, personnel, sales, wage, and price policies of large companies have an impact which their relative shares of the nation's business may not reveal. The wage and price policies of "Big Steel" have a "ripple effect" through the economy which is not evident from statistics on employment or assets. Also, the emphasis of American culture on goods and services, and on goods and money as yardsticks of personal success, can be ascribed partially to the sales and advertising campaigns of many large concerns. Large enterprises, that is the men who coordinate and manage them, have some influence in shaping the points of view, attitudes, goals, wants, and desires of many other people. These business organizations are, to a considerable degree, the powers behind the throne of consumer sovereignty. The powers of business executives are not absolute, as we shall see, but the point is they hold more control than the rationale of competitive free enterprise suggests people actually possess—and they may possess more power than the value premise stated at the outset would indicate as desirable.

If the realities of modern economic life mean that some people are in positions with a degree of influence and power over others, in possible violation of a value premise which undoubtedly many Americans hold important, what alternative checks or regulators or such socioeconomic power are available to us? Briefly, the checks in use now, or said to be in use, are the following: 1) Rivalry between firms of a particular field, or "intra-industry competition," is the traditional check against abuse of power present in free enterprise. 2) Inter-industry rivalry of new products and processes, "competition a la Schumpeter," is a control device perhaps increasingly effective today. The "perennial gale of creative destruction" often buffets positions of intrenched economic power. 3) Development of counterbalancing blocs of economic power such as labor unions or national retail organizations also may be a deterrent against the use of undue influence and pressures. 4) Active participation, and threatened participation, of government through antitrust prosecutions, public utility supervision, or actual operation of produc-

5. A. D. H. Kaplan, **Big Enterprise in a Competitive System** (Washington: Brookings Institution, 1954), p. 68.
6. Ibid., p. 70.
7. Adelman, "Is Big Business Getting Bigger," **Fortune**, January, 1952, p. 58.
8. Industrial corporations include incorporated enterprises in the fields of manufacturing, mining, construction, trade, and services. See Kaplan, op. cit., p. 125.
9. Kaplan, op. cit., p. 127.

ATLANTA ECONOMIC REVIEW

Published monthly by the
Bureau of Business and Economic Research
School of Business Administration
Georgia State College
of Business Administration

33 Gilmer Street, S. E., Atlanta 3, Ga.

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tion facilities has been a much-used check against possible abuses of private power. 5) Increasingly, discussion of alternative checks on business power has centered around the possibilities of businessmen controlled "from within"—from a "conscience" which prompts them to take into account their "social responsibilities" in administering corporate affairs. This is the "social responsibility of businessmen" concept.

Presentation of the Social Responsibility Philosophy

It is this latter possible check against the exertion of power or of influence over others with which this article deals. What is meant by the "social responsibilities of businessmen"? What conditions are necessary for it to be an effective, democratic regulator of private interest? What are some of the implications which arise from the use of this control device? These are some of the questions which will be discussed in this article.

What do businessmen say their social responsibilities are? According to the late Lewis Brown, chairman of Johns-Manville Corporation:

> In the evolution of a complex industrial society the social responsibility of management has broadened correspondingly. Management no longer represents, as it once did, merely the single interest of ownership; increasingly it functions on the basis of a trusteeship which endeavors to maintain, between four basic interlocking groups, a proper balance of equity. Today the executive head of every business is accountable not only to his stockholders, but to the members of his working organization, to his customers, and to the public.[10]

A similar observation is reflected in the following statement of Professor A. D. H. Kaplan of Brookings Institution in which he describes the orientation of "big business":

> The area of industrial big business has features of individual private enterprise and also enterprise vested with a public interest. . . . It has been described as "managerial enterprise" to connote that it is management operated on behalf of an aggregation of interests with which the big business is directly and indirectly related. The management is responsible to owners or investors who for the most part do not participate in management, to large labor groups whose employment directly affects the corporation's production and income, to thousands of suppliers and distributors, and to the innumerable consumers with whose acceptance of the output the success of the operation is ultimately tied.[11]

Statements of a similar character could be multiplied several-fold, but these are sufficient for us to see the main features of the social responsibility concept. The concept revolves around "trusteeship" with corporation executives in their decisions and actions "balancing" the interests of those affected by large enterprise. The large enterprise is thought to be managed and coordinated not for a single interest group but for all the individuals affected by it. A reasonably harmonious relationship between the various groups influenced by the organization is sought.

10. Quoted from H. R. Bowen, **Social Responsibilities of the Businessman** (New York: Harper & Bros., 1953), p. 49.
11. Kaplan, op. cit., p. 57.

As might be expected, there are many individuals skeptical of the possibilities of such "trusteeship" by businessmen. There is skepticism that the words may be merely a facade behind which business leaders still subtly exert power and influence. As Professor Bowen notes: the viewpoint "can easily become no more than a pretense, or a rationalization or a propaganda device. . . ."[12] Just what, then, is the social responsibility concept? Is it a possible control device over power or is it a means through which camouflaged power is still exercised?

INFORMAL SOCIAL CONTROL CONCEPT

Answers to these questions perhaps can be found by analyzing the social responsibility viewpoint with some of the conceptual tools of social science. These tools may tell something of the character and nature of the trusteeship approach. Professor Clark presented some time ago the proposition of informal social controls of business, a concept which sociologists and economists have often utilized.[13] According to Clark, checks on power stemming from the customs and needs of society complement the judicial and statutory enactments of the nation. Informal social controls are mores; that is, the accepted ways of behavior in society in their capacity as regulators of action. The social practices of "good manners" and dress, for example, exert imperceptible yet strong control over the behavior of individuals in American or any other culture. Most of us conform to the subtle pressures of custom and social practices. Informal social controls of business behavior are of the nature of more influencing human action. Many businessmen seek to give "people their money's worth," partially because competition forces them to, but also because the customs of America suggest that this is proper commercial practice. The "social responsibility of businessmen" viewpoint very likely is an informal social control or pattern of mores, with the proper way of behaving for large corporate executives now being in a trusteeship framework. The mores of society are not perfect or complete solutions to the problem of control, but yet they are essential for effective group supervision.

If the social responsibility viewpoint is an evolving web of mores in action, how does it become effective in its control of business decisions and actions? It is to the point of triteness to state that man is a social animal, but nonetheless it is because of this obvious feature of human beings that mores are substantial regulators of human conduct. The culture in which a person lives shapes and influences his attitudes, values, wants, and desires—and gives him the customs by which he lives. This is not to say that the individual is a robot completely directed by the cultural environment in which he lives. Within a broad framework of cul-

12. Bowen, op. cit., p. 120.
13. J. M. Clark, **Social Control of Business**, second edition, pp. 201-234.

tural influence, man is free and dynamic. The relationship between man and society is one of complex interaction and mutual influence rather than one of simple determinism. However, individuals do "interiorize" into their thinking the customs, folkways, and norms of good and bad behavior given them by their cultural setting. Because the culture in which we grow up shapes our attitudes and viewpoints, the social responsibility viewpoint may become a part of the thinking of contemporary American businessmen. Professors R. A. Dahl and C. E. Lindblom describe the "internalization" of viewpoint, putting the control at the level of "conscience," which characterizes effective regulation.[14] Such direction from within the individual is particularly useful in that it reduces the need for a structure of supervision to regulate the behavior of people. The pressures of conscience can be quite compelling. Conscience, additionally, indicates to the individual what types of behavior are "meet, right and salutory," giving them a badge of approval. Another investigator of the problem of business power suggests by analogy that just as the American community and its military chiefs do not seriously contemplate the possibilities of a military overthrowal of the government because of certain American mores, so businessmen may develop a certain sense of function and responsibility—not entirely as a consequence of law or court decisions but because of the mores of the American community.[15] This discussion may conjure up visions of "brainwashing" or Orwell's **1984**, but it is important for us to remember that because of the social character of human beings, some amounts of social indoctrination are an inevitable feature of human life. The crucial question at this point becomes indoctrination in what kind of values, attitudes, and customs? In summary, the social responsibility concept may be more than words, for the cultural environment in which the businessman exists may present him with norms of business behavior which his "inner self" tells him he should follow.

To indicate that the problem of evaluation is exceedingly complex, however, the concept of mores may be a two-edged weapon, sometimes explaining a social responsibility frame of reference, while in other circumstances encouraging business behavior in opposition to social goals and values. Business administrators, advertising executives, or salesmen as members of occupational groups may have "internalized" into their thinking and attitudes mores which conflict with a "socially responsible" outlook. Pressure selling, "shrewd" advertising practices, or single-minded focus on stockholders interest, for example, may be encouraged by the informal social controls of the smaller yet vital occupational groups of which businessmen are members.

THE ROLE AND AGENDA OF BUSINESSMEN

Another social science tool of analysis is useful in evaluating the trusteeship viewpoint—the concept of role. Using the description of Professors Dahl and Lindblom, we may define role as follows:

> When a person is faced with a particular agenda (schedule-of-things-to-be-done) or a class of agendas, he may act in a particular way; if his responses when faced with a particular agenda or class of agendas are more or less habitual and repetitive, then these responses may be said to make up his role.[16]

Two aspects of role, then, are an agenda or schedule of things to do and a repetitiveness in the responses which individuals make in view of a particular agenda. Roles differ partly because of the fact that different lists of duties confront different individuals. Housewives have considerably different schedules of tasks from those of corporate executives, while those of football players vary from either of these groups. With a variation in agenda, we can speak of the roles of housewives, corporate executives, and football players.

A role called "Businessman" exists, for individuals playing this character in society have certain similar tasks to perform, and they perform those tasks in a more or less similar habitual pattern. The rationale of competitive free enterprise suggests that the major item in the agenda of the businessman role is that of pursuing profits as rigorously as possible within the framework of private enterprise and of common honesty and decency. There is plenty of evidence available, however, to indicate that the agenda of contemporary businessmen has undergone considerable change from this rather simple schedule of duties, if this brief agenda ever did exist in reality. The change has been precisely one in which a social responsibility concept of behavior has been added to the agenda and responses of businessmen. Antitrust enactments, taxation legislation, labor unions, community development goals, social security, industrial accident and unemployment protections, changing views of business morality, trade association activity, and professionalization of management discussions are just a few of the developments of the past century which have exerted influence on the agenda facing business executives today. Because the changes have been largely piecemeal in character, we perhaps have not been mindful of the process of adjustment taking place; but, if we examine with perspective the period from 1860, a changing agenda for business leaders seems evident. The changing educational and occupational backgrounds and experiences of modern business executives, as illustrated by tendencies toward career administrators with a group-management orientation as contrasted with a pure

14. R. A. Dahl and C. E. Lindblom, **Economics, Politics and Welfare**, pp. 112-115.

15. C. E. Ayres, **The Industrial Economy** (New York: Houghton Mifflin Co., 1952), pp. 392-395.

16. Dahl and Lindblom, **op. cit.**, p. 111.

entrepreneurial background,[17] also results in businessmen today possessing different patterns of habitual response to agenda than those of businessmen of several generations ago. Or to put the point more simply, today's businessmen, partly as a consequence of differing experiences and backgrounds, define problems somewhat differently and react differently from business leaders of fifty years ago. This can be seen in the area of labor relations for example.

The role of "businessman" thus has been altered to the point that industrial leaders now feel that they must take into account the impact of business practices and policies upon many groups affected by business concerns. The statements quoted at the outset of the paper are sufficient to indicate this changed conception of the agenda facing businessmen. A *Fortune* survey of not too long ago indicated, furthermore, that a large majority of businessmen apparently are thinking in similar channels of thought. Of the businessmen questioned by *Fortune*, 93.5 per cent felt that a "social conscientiousness" was part of their responsibility and that they should attempt to meet this responsibility.[18] This reflects a marked shift in the role of businessmen, particularly when contrasted with the role depicted in the rationale of competitive free enterprise. The evolution of role and agenda undoubtedly is not simply one of business leaders by their own will expanding the scope and content of their activities. The change is probably more significant than that, for it likely reflects an adjustment in role engineered by the whole of American culture. Changes in roles often are a social effort, with the community and the individuals participating in the role cognizant of the changing agenda and patterns of repetitive response. Recalling the earlier discussion of cultural influence, it is because the changing role becomes a part of the continuum of custom and mores that such a role shift has social control possibilities. Here is one of many areas of further study, for a crucial question relates to the extent to which the community today is aware of the social responsibility addition to the role of business executives.[19] It should be noted in opposition to this rather optimistic discussion, finally, that businessmen can have agenda which do not always foster a social responsibility viewpoint. If the agenda given businessmen by an earlier ideology or by the occupational groups of which they are members conflict in some respects with a responsible outlook, then the role of businessmen may discourage such a broad philosophy.

THE "BENT OF WORKMANSHIP" CONCEPT

With the agenda of business administrators undoubtedly including to some degree, however, a consideration of the impact of business policies and actions on many groups affected by the enterprise, an interesting trait of human beings may come into action, strengthening the exercise of this socially-responsible viewpoint. Humans often make ends out of the means to ends. Many people, for example, initially find employment for the end or purpose of securing income sufficient to maintain or increase a level of living. A job is a means to the end of living. Often, however, the work itself becomes in the minds of many a desirable and pleasurable activity in itself. Business enterprises may pursue a policy of "the customer's always right" not out of any love for humanity but simply because such a policy is good business. Yet often the *tendency* exists for the means—the friendly, cordial customer policies—to become desirable and worthwhile in themselves. Professor Clark calls this trait in humans the "bent of workmanship."[20] A moment's thought will indicate that this characteristic does not always work to individual or social interest. Activities which have long lost their basic purpose and synchronization with ends may nevertheless persist as a consequence of this human trait.

Buinessmen may include a social responsibility concept in their roles and agenda because they are compelled to do so by the mores of the community. Socially accepted practices may be the means to the end of preventing government intervention, shifts of customers to rival enterprises, or labor unrest; but, in carrying out such a role for the sake of "good business," with the "bent of workmanship" present, these practices may be considered in themselves as a desirable, worthwhile, and satisfying approach to business affairs. Thus the trait of making means into ends may serve to bolster the energy and interest of businessmen in playing the role of responsible administrators.

THE "SYMPATHETIC IDENTIFICATION" CHARACTERISTIC

A brief reference to another characteristic of human beings may give additional understanding of the social responsibility viewpoint. Humans possess in varying degrees the quality of sympathetic identification or of empathy; that is, we have the tendency to put ourselves as individuals in the roles and circumstances of others, feeling vicariously that what is happening to them is happening to me."[21] One writer contends that it is this attribute which separates man from beast, for with-

(Continued on page 10)

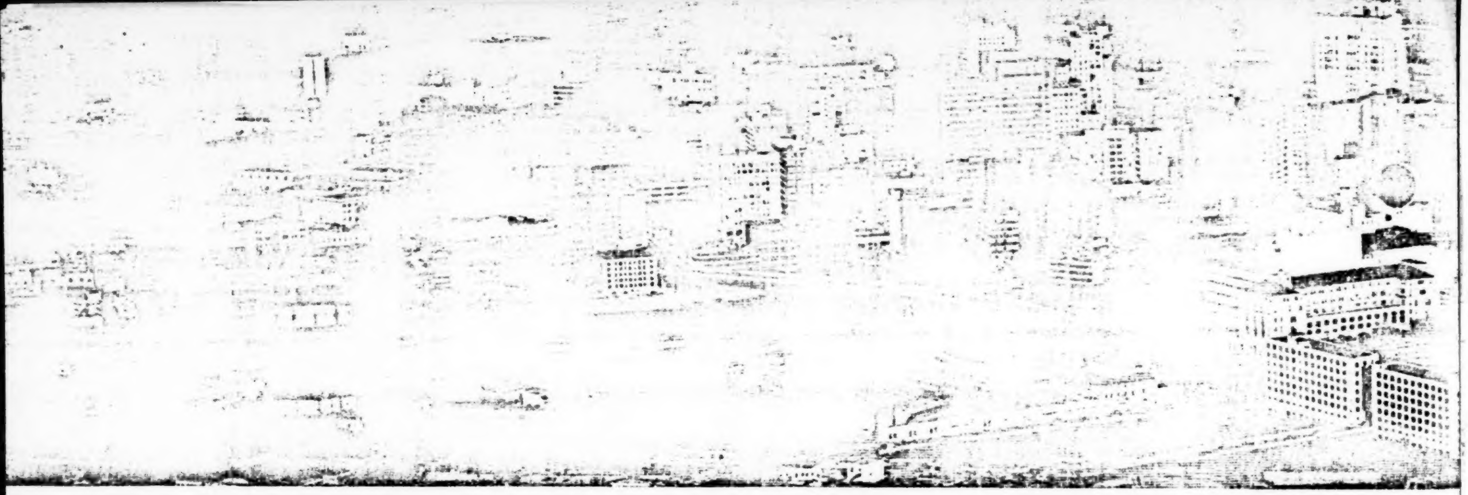
17. The changing backgrounds of business leaders is seen in such studies as M. Newcomer, "The Chief Executive of Large Business Corporations." **Explorations in Entrepreneurial History** (Research Center for Entrepreneurial History, Harvard University, October 15, 1952), S. M. Miller, and C. Stoddart, **The Dynamics of the American Economy** p. 2; "The Nine Hundred." **Fortune**, November 1952, p. 132. C. H. Hession, (New York: A. A. Knopf, 1956), pp. 116-121, also discuss this change and its implications.

18. Quoted from a survey by **Fortune** in 1946 referred to in Bowen, op. cit., p. 44.

19. The writings of Messrs. Bowen, Berle, Maurer, Drucker, Hession, and Childs (included in "Suggested Readings"—see note at end of article) indicate a growing awareness of this adjustment in the role of business executives.

20. J. M. Clark, op. cit., pp. 227-230.

21. See the work of such men as C. H. Cooley, **Human Nature and the Social Order** (New York: Charles Scribners' Sons, 1902), Chapter IV; and G. H. Mead, **Mind, Self, and Society** (Chicago: University of Chicago Press, 1937), pp. 298-303.



FEBRUARY 1957
ATLANTA AREA ECONOMIC INDICATORS

ITEM	February 1957	January 1957	% Change	February 1956	% Change	% Change Two Months '57 Over Two Months '56
EMPLOYMENT						
Job Insurance (Unemployment) Payments	$343,758	$396,333	−13.3	$218,757	+57.1	+77.3
Job Insurance Claimants†	5,878	4,813	+22.1	3,756	+56.5	+46.8*
Total Non-Ag. Employment	340,500	341,400r	−0.3	336,450r	+1.2	+1.4*
Manufacturing Employment	89,400	90,250r	−0.9	89,750	−0.4	−0.2*
Average Weekly Earnings, Factory Workers	$73.28	$74.59r	−1.8	$69.37	+5.6	+7.6*
Average Weekly Hours, Factory Workers	39.4	40.1r	−1.7	40.1	−1.7	−0.5*
Number Help Wanted Ads	8,494	10,274	−17.3	8,735	−2.8	+2.9
CONSTRUCTION						
Number of Building Permits§	703	730	−3.7	795	−11.6	−4.6
Value Building Permits§	$4,780,468	$4,441,940	+7.6	$4,763,708	+0.4	+5.1
Employees, Contract Construction	16,750	16,950r	−1.2	18,600	−9.9	−9.5*
FINANCIAL						
Bank Debits (Millions)	$1,457.0	$1,589.2	−8.3	$1,395.0	+4.4	+3.8
Bank Deposits (Millions) (Last Wednesday)	$1,063.2	$1,061.9	+0.1	$1,023.5	+3.9	+3.9**
POSTAL§						
Postal Receipts	$1,364,680	$1,401,121	−2.6	$1,473,829	−7.4	−5.9
Poundage 2nd Class Mail	1,247,923	1,020,860	+22.2	1,356,426	−8.0	−11.5
OTHER						
Department Store Sales Index (Adjusted) (1947-49=100)	150	150	0.0	142	+5.6	+3.0¶
Retail Food Price Index (1947-49=100)	112.1	111.2	+0.8	107.9	+3.9	+3.9*
Number Telephones in Service	292,631	291,369	+0.4	274,781	+6.5	+6.5**

r—Revised *Average month **End of period ¶—Based on retail dollar amounts
§City of Atlanta only. N. A.—Not Available

†Claimants include both the unemployed and those with job attachments, but working short hours.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

BUSINESS ACTIVITY IN FEBRUARY

Nonagricultural employment in the Atlanta area slipped downward in February for the second month. The decline was slight, just 0.3 per cent below the January level, and was the result of losses in trade (1,000), manufacturing (850), and construction (200). These losses were only partly offset by gains in transportation, communication, and public utilities (100); finance, insurance, and real estate (300); service and miscellaneous (350); and government (400); for a net loss of 900. All of the loss in trade occurred in retail trade while wholesale trade remained the same as in January. In manufacturing the loss was entirely in durable goods, non-durables recording a net gain of 50.

Manufacturing employment, at 89,400 in February, is lower for the third consecutive month, down 1,600 from the all time high of 91,000 reached in October of 1955, but 3,550 greater than the July 1956 figure, which was 85,850.

Average weekly earnings in manufacturing, at $73.28 in February, were $1.31 less than the January average, but $3.91 greater than the $69.37 average for February 1956. The increase was 5.6 per cent over the twelve months period.

Average weekly hours in manufacturing dropped 1.7 per cent, from 40.1 to 39.4 hours. Of all the reported industries, apparel and other finished products reported the shortest work week, 32.7 hours, and the lowest hourly wage, $1.34. The longest work week, reported for paper and allied products, was 43.6 hours at an average of $1.54 per hour.

The drop in average weekly hours, an important indicator of activity in manufacturing, is usual at this time of year. The February drop to 39.4 hours, however, gave that month the shortest average work week since June 1954.

The number of help wanted ads declined somewhat more sharply than can be attributed to seasonal factors alone, but the adjusted figure is still somewhat greater than the 1955 or the 1956 average.

The number of building permits issued during the first two months of 1957 was 1,403, down 4.6 per cent from the 1,502 issued during the same period last year. The total **value of permits** issued, however, was 5.1 per cent greater during the January-February period of 1957 than it was in the same period of 1956. Employment in construction was down 1,850 from February last year.

Bank debits were down 8.3 per cent from January (there were but 19 working days in February compared with 22 in January). The February 1957 figure was 4.4 per cent greater than the same month in 1956 and the total for the two months in 1957 was 3.8 per cent greater than the like period of 1956.

Department store sales, as measured by the **department store sales index**, remained about the same for February as for January. Dollar volume of sales, however, was 3 per cent greater for the first two months of this year than for the same period last year.

February is a month in which the statistics of many types of business activity show declines. Bad weather, which is usual in February, causes delays and lay-offs in many types of industry. Lay-offs after January sales and inventories account for losses in the number employed in retail trade. Some declines in the published figures are attributable merely to the fact that February has fewer days than January. Consideration must be made for these facts, but it is still undeniable that there has been a slackening in the boom. Business is not quite as good, on the whole, as has been experienced in the recent past. Recession, though, seems extremely unlikely. There are many really strong points in the Atlanta economy. The growth in total employment, growth in real wages, the expanding population, the increase over the months in bank deposits and bank debits, and many other areas of growth point to a bright future for the city.

VOLUNTARY AND COOPERATIVE GROUPS: LITTLE KNOWN BUT GIANT FOOD MARKETING INSTITUTIONS

by

David J. Schwartz, Jr.*

American marketing is dynamic. Techniques, methods, concepts, and even institutional frameworks change. In the latter part of the 19th century a great marketing innovation took place—the birth of the corporate chain. Basic concepts underlying the corporate chain were simple: operation of a number of retail stores under central ownership would permit quantity buying and facilitate united promotion. Through increased efficiency, the chain could reduce prices to consumers which, in turn, would pave the way for further chain expansion.

To be sure, chain organizations did not attain economic importance immediately. But by 1920 it was apparent that chains had become an established marketing institution.

Independents Fight Back

Two approaches were used by independent merchants to meet this new form of competition. The first was to attack chains on moralistic and idealistic grounds. Efforts were made to turn public opinion against the chains because they were "pirates" who took money out of town and delivered it to the "barons" on "Wall Street." Meanwhile, the independent merchant was described as a good citizen and a neighbor who "deserved" patronage.

While this approach to meeting chain store competition did result in the enactment of some antichain legislation, the moralistic attack largely failed. Consumers, who are the supreme court in American marketing, clearly endorsed the corporate chains by patronizing them in ever-increasing numbers. Consumers apparently felt a stronger obligation to feed their families better for less than to preserve an "ideal," the independent merchant.

The second and more fruitful approach to meeting chain store competition was simple and economically more honest: "fight fire with fire." A few realistic leaders among independent retailers and wholesalers reached the conclusion that the only way to compete with the chains is to function like the chains. In 1921 a leading wholesale grocer, S. M. Flickinger, founded Red and White Stores which paved the way for the establishment of hundreds of voluntary and cooperative groups.

What Are Voluntary and Cooperative Groups?

A **voluntary group,** sometimes called a wholesaler-sponsored group, is defined as an association of independent retail grocers under the supervision of a wholsale grocer who renders merchandising, store engineering, advertising, accounting, and other services, and from whom retailer members purchase goods.

A **cooperative group** is a form of business enterprise owned and controlled by retailer members, which functions as a wholesaler, and cooperatively performs various merchandising activities. A cooperative group is sometimes called a retailer-owned group. Usually, the cooperative group builds or leases a warehouse and hires a manager to operate it. The warehouse acts as a sponsoring headquarters.

Importance Of Voluntary And Cooperative Groups

Surprising to many is the fact that voluntary and cooperative groups currently account for a slightly larger per cent of total grocery store sales than do corporate chains. In 1955, corporate chains accounted for 36 per cent of total grocery sales, but voluntary and cooperative groups accounted for 38 per cent.[1] Of an estimated 24,700 super markets (retail food stores with annual sales in excess of $375,000), approximately half are chain stores and half are independent stores, most of which are affiliated with voluntary or cooperative groups.

Numerical Significance

As of January 1956, there were an estimated 107,535 independent retail food stores associated with 821 voluntary or cooperative groups.[2]

Voluntary and cooperative groups are relatively less numerous in the South than in other sections of the nation.

TABLE 1
TABULATION OF VOLUNTARY AND COOPERATIVE RETAIL FOOD GROUPS IN THE SOUTH
1956

State	Number of retailers affiliated with voluntary and cooperative groups
Alabama	149
Arkansas	258
Florida	710
Georgia	801
Kentucky	559
Louisiana	824
Mississippi	188
North Carolina	771
Oklahoma	758
South Carolina	404
Tennessee	1,225
Texas	2,644
Virginia	2,106
Total	11,397

Source: Voluntary and Cooperative Groups Magazine, April 1956.

While the southern states shown in Table 1 accounted for 27 per cent of the nation's population in 1955, they accounted for only slightly more than

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1. Progressive Grocer, Facts In Grocery Distribution, 1956.
2. Voluntary and Cooperative Groups Magazine, April, 1956.

10 per cent of all retail stores affiliated with voluntary and cooperative groups. It is interesting to note in this connection that only about 12 per cent of the corporate chain outlets are found in these states.

Reasons for the relatively weak development of voluntary and cooperative groups in the South (as well as corporate chain outlets) include:

(1) **The relative lack of large metropolitan centers.** All forms of chain and group activity function best in large cities where there is maximum opportunity for group promotion and rapid, efficient delivery service from a warehouse.

(2) **Some legislation in several southern states** which has impeded the development of corporate chains and voluntary and cooperative groups. The state of Georgia, for example, has an "anti" chain store tax law which was held to apply to voluntary and cooperative groups.

Reasons For Importance of Voluntary And Cooperative Groups

The success of voluntary and cooperative groups seems to be related directly to their demonstrated ability to act like, look like, sell like, and operate like corporate chains. Leaders in the voluntary and cooperative groups movement freely admit their deliberate attempt to use chain store techniques. Mr. H. T. Webb, President of the Red and White Corporation, said recently:

> You can fight chain store competition with chain store methods. In these days of a dwindling number of independent retail food stores, and the ascendency of super market chains, the key to survival and prosperity is playing the game the way the chains do. This means the wholesaler must supply the independent store with all the services that a chain store manager gets from his headquarters. In return the independent stores must band together and concentrate their buying power with a single wholesaler so that he in turn can help pass on his buying economies to the retailers.[3]

Specific services which voluntary and cooperative groups provide retailer members, and which indicate the "secrets" of the success of this movement include:

1. **Group Buying.** A key objective of voluntary and cooperative groups is to purchase merchandise in the largest possible quantities and thereby obtain the lowest possible price. Buying economies pave the way for member retailers to compete on a price basis with corporate chain stores.

2. **Private Brands.** Voluntary and cooperative groups brand or label much of the merchandise sold through member stores. In 1956, for example, Red and White Corporation attached its own brand names to over 1,800 items. Through private branding, the groups are able to obtain further price concessions from food manufacturers and processors, and are able to promote their brands in any manner they choose.

3. **Store Engineering.** Voluntary and cooperative groups provide member stores with plans for building new stores, remodeling old stores, designing attractive store fronts, and selecting locations for new stores. The groups also provide counsel on selecting store equipment and building effective merchandise displays.

4. **Advertising.** Voluntary and cooperative groups generally collect a fee from each member to provide advertising for all members. Group headquarters also prepares matrixes, posters, radio and television commercials, and other advertising aids for use by individual members.

5. **Store Management Assistance.** Much emphasis is placed on helping independent merchants become better managers. Through clinics, bulletins, and house organs, members are given instructions on all phases of their operation, including merchandising, record keeping, personnel supervision, and advertising. Many groups employ "fieldmen," "superintendents," or "missionary salesmen" to render personal assistance to the store manager. In the words of one executive of a voluntary group:

> Our fieldmen are given the responsibility for the success or failure of a retail unit. . . . They must know retail merchandising, advertising, basic retail engineering and sound operating procedures. They must have the ability to instruct others and to win the confidence and goodwill of retailers. . . . We expect our fieldmen to devote a portion of their time to helping retailers with a Group-wide promotion, with store remodelings, or in connection with solving operational problems.[4]

Wholesaler-Retailer Relationships

Most voluntary and cooperative groups are bound contractually with their members. In nontechnical language, the groups are obligated to:

1. sell at prices which permit the retailer to be competitive,
2. sponsor an advertising and promotional campaign for group members,
3. provide services of supervisors who will help the retailer with his operational problems,
4. establish no store which would be directly competitive with an existing store.

Meanwhile, retailer members agree to:

1. maintain high standards, remodel, paint up and clean up according to specifications,
2. prominently identify themselves as group members,
3. concentrate buying with the group sponsor,
4. support the advertising program by paying a proportionate share of its cost,
5. cooperate with the group sponsor by paying for the merchandise according to established terms, usually cost, pricing merchandise at competitive prices and cooperating with the group's supervisor.

Relative Importance of Wholesale-Sponsored and Retailer-Cooperative Groups

Retailer-cooperative groups are considerably less important numerically and in sales volume than wholesale-sponsored groups. In 1956, retailer-cooperative groups accounted for 31 per cent of all voluntary and cooperative groups and 37 per cent of all retail outlets affiliated with voluntary and cooperative groups. The major weaknesses in the retailer-cooperative group plan center on relatively inefficient management. Apparently, retailers who act together to establish a wholesale establishment often are not sufficiently experienced in wholesaling operations.

3. In a speech September 17, 1956, before the Convention of Tennessee Wholesale Grocers Association.

4. Byron Brookpost, "Report on the Progress of the Stedman Company," Voluntary and Cooperative Groups Magazine, April, 1956.

Advantages and Limitations of Voluntary and Cooperative Groups

Major advantages of the voluntary and cooperative groups when compared with corporate chains are:

1. **Tax Advantages.** Profits made by individual corporate chain stores are pooled and taxed as a whole. Members of voluntary and cooperative groups are independent merchants and, therefore, each store pays taxes based on its own profits.

2. **Fewer labor problems.** In the corporate chain, employees in each store and in each branch house work for the same corporation, and organization of employees into unions is relatively easy. In a voluntary or cooperative group, employees work for independent retailers and independent wholesalers. Organization of employees into labor unions is, therefore, much more difficult.

3. **Greater management incentive.** Proponents of the voluntary and cooperative groups contend that the independent store merchant has greater incentive than the hired manager in the corporate chain.

Major limitations of voluntary and cooperative groups seem to be:

1. **Difficulty in enforcing policy decisions.** Despite contractual relationships with retailer members, voluntary and cooperative groups lack the power of corporate chains to enforce policy decisions. This is especially true in the retailer cooperative groups where members apparently have less respect for group leadership.

2. **Organization instability.** If a retail outlet in a corporate chain fails to attain a satisfactory sales volume, the chain can replace the manager or take whatever action it deems wise. The voluntary or cooperative group does not own the retail outlet and accordingly, so long as the retailer member complies with his contract, the group cannot take direct corrective action. Further, if a retailer member decides he no longer wants to belong to the group, the group loses an outlet.

Voluntary and Cooperative Groups In Non-Food Marketing

Numerous attempts have been made to form retailer cooperative groups in the drug, hardware, and variety merchandise fields, but these have either failed or attained only mediocre success. Besides the weaknesses inherent in the retailer cooperative group in the food field, retailers in other fields face the additional disadvantage of being relatively few in number.

The wholesaler sponsored method of group action, however, has been successfully adopted to non-food marketing. In the hardware field, Marshall-Wells Company of Duluth has franchised more than 500 retail hardware stores. In the variety merchandise field, Butler Brothers, a large Chicago wholesaler, has franchised over 2,200 independent retailers. It is unlikely, however, that cooperative action of independent retailers and wholesalers will ever attain the importance in other fields that it has in food marketing.

Corporate Chain Sponsorship of Independent Retailers

In 1901, the Rexall Drug Company, a corporate drug chain, developed a plan to franchise independent retail druggists. Under this arrangement, the independent druggist remained independent but he agreed to stock mainly Rexall products, participate in Rexall promotional programs, and identify his store as a Rexall outlet.

As an outgrowth of the pioneering efforts of the Rexall Company, many other corporate chains have developed plans to franchise independent retailers. Some of these are the Walgreen Company, with over 2,000 franchised outlets; Howard Johnson Restaurants, with more than 200 franchised restaurants; and Western Auto, which has more than 3,600 franchised or associate stores.

The corporate chain-independent retailer form of cooperation benefits both parties. Corporate chain can expand with a minimum of capital investment and risk, while the independent retailer can enjoy the consumer recognition of the corporate chain and benefit from its advertising and promotion.

Conclusions

The significant success of voluntary and cooperative groups has brought about a new vitality to marketing by independent retailers until, today, voluntary and cooperative groups account for a larger share of food store sales than do corporate chains.

The voluntary and cooperative group movement has been a successful practical experiment in discovering how independent food retailers can adapt to changing conditions and changing competition. As this movement has already demonstrated, it is possible to adapt chain store methods and techniques to the framework of independent retailing.

It is also noteworthy that corporate chains, especially in drugs, auto accessories, and home appliances, have been very active in serving as wholesale sponsors of independent retailers.

An Evaluation Of The Social Responsibility

(Continued from page 5)

out this characteristic, he argues, learning and increase in knowledge are impossible.[22]

With the characteristic of sympathetic identification undoubtedly present in many business executives, it is evident why, to some extent, business practices and policies are often evaluated in terms of their impact on other human beings. Many corporation executives consciously or unconsciously often put themselves in the position of other individuals, asking "How would I be affected, as a citizen of town X, if our corporation moved a plant out of the city lock, stock, and barrel?" Or managers may ask, "What would be my reaction, as a

22. Glenn Gilman, **Human Relations in the Industrial Southeast** (Chapel Hill: University of North Carolina Press, 1956), pp. 5-8.

laborer, if the company suddenly without warning and discussion introduced labor-saving types of machinery in our plants?" Thus the trait of sympathetic identification may help prompt, though it does not guarantee, a social viewpoint.

This trait, however, as do the concepts of informal social control and role, has a negative aspect in evaluating the "reality" of the social responsibility philosophy. The ability to put one's self in the situation of another may not only foster sympathy for the problems of others but also may be the means by which a person is able to manipulate effectively the desires and actions of others, giving a frankenstein twist to the trait of sympathetic identification.

"Modal Personality Type" of Modern Businessmen

Anthropologists have devised still another conceptual tool to analyze human behavior which may offer some insights into the trusteeship approach to business decisions, that of "modal personality type." Each culture, according to these social scientists, tends to bring about a bundle of personality traits in most of the individuals living in the culture, though not necessarily in all, which is congenial to that culture, and even necessary in order for that culture to remain viable.[23]

This pattern of personality characteristics is called the modal personality type for a culture. A Catholic monastery, for example, tends to encourage and even requires for its existence, a certain bundle of personality features in its members; while in a frontier environment the personality traits needed and fostered may be considerably different. The basic personality type of American business of a century ago undoubtedly was that of a keen individualistic, entrepreneurial person, with a "devil take the hindmost" outlook in the Vanderbilt, Gould, and Drew tradition. If we postulate, however, a trend toward an increasingly "organizational economy," to use Professor Boulding's term,[24] with a prevalence of large scale, interdependent economic relations—in other words a change in the American culture—then perhaps an alteration of some degree in the basic personality type can be expected. The increasing interest in the social and ethical implications of business decisions and policies, with perhaps a greater degree of sympathetic identification in the psychological framework of managers, thus may reflect adjustment of the basic personality type in an evolving American culture. The contemporary economy may foster and require such a shift in orientation and viewpoint by its businessmen and by other interest groups.

SUMMARY AND CONCLUSIONS

After the above discussion of the social responsibility concept using various insights of social science, answers to some of the questions asked earlier are apparent, though the discussion may have raised more questions than it answered. It seems reasonably clear that the social responsibility viewpoint can conceivably be more than a clever philosophy helping to erect a system of benevolent, or not so benevolent, paternalism, though this is a chilling possibility. This is one of the major dangers against which a free and democratic, yet increasingly organizational, society must constantly guard. Our study reveals, however, that the social responsibility approach can be classified as an informal social control, putting the check on power in the "conscience" of the businessman. It also reflects a change in the role and agenda of business executives, with community participation to some extent in this evolution. Traits of human nature such as the "bent of workmanship" and "sympathetic identification" may act to strengthen the vigor with which this changing role is practiced. There seems to be, then, a sociological or behaviorial basis for the thesis that the social responsibility viewpoint may be, if it is not already, a supplementary check on business power.

But what conditions must be met for this check to be an effective control device in contemporary society? First, this viewpoint must take on the character of custom and social habit; it must be the socially accepted way of going about business decisions and actions. **The community** and **businessmen** must be aware of what these responsibilities are and both must expect that such a viewpoint will be practiced. Decisions and actions made within this framework also must be shared decisions—made in the full light of public scrutiny and attention. This does not necessarily mean government supervision of business behavior in the manner of public utility regulation; it probably would be sufficient simply for full reports and explanations of decisions and policies to be made available to existing government agencies (FTC, Justice Department), private research agencies, university scholars, and other interested persons. The "social audit" suggestion of Professor Bowen is a similar proposition which has a great deal of merit.[25] A constant public evaluation of business philosophy and practices is necessary in order to put the social responsibility concept more thoroughly into the customs of American life. Also, public analysis is essential in order to ensure that the trusteeship viewpoint maintains a democratic flavor and does not become a facade through which power is nevertheless exerted.

To express this first condition in slightly different terminology, the social responsibility approach must be a strong part of the role and agenda of businessmen, so that whenever an individual

23. R. M. MacIver and Charles H. Page, *Society, An Introductory Analysis* (New York: Rinehart & Co., 1950), pp. 57-58.

24. K. E. Boulding, *The Organizational Revolution* (New York: Harper & Bros., 1953).

25. Professor Bowen recommends that business managers could subject their companies to periodic evaluations by impartial and disinterested observers of the social effects of their organization. See Bowen, *op. cit.*, pp. 155-156. A number of programs are already under way, such as the National Planning Association studies, the Foundation for Economic Education Faculty Fellowships, and the Dupont University Program, which are related in some respects to the "social audit" idea of Professor Bowen.

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"takes this part in the play of life" he will perform in that framework and, very importantly, **the community will expect him to play the role in that manner.** As we have stated, it is because of community expectations that the regulatory and enforcing aspects of role exist. The fact that increasing study is being directed to the social responsibility concept by businessmen, university scholars, churchmen, and others indicates that this condition is in the process of being fulfilled.

Next, there must be more precision and concreteness in the viewpoint than is now available to business executives and the community. At present the concept may be so general that it offers little insight into how the interests of many groups should be evaluated in particular problem-situations confronting the business enterprise. Possibly the concept would be more useful if it were redefined to mean business behavior evaluated in terms of such socioeconomic goals as economic growth, low-cost production, and full employment rather than the vague "balancing of interests" which the concept now embraces.

Finally, it seems readily apparent that this approach to business affairs must be linked intimately with many kinds of knowledge, knowledge in the social science fields of sociology, social psychology, economics, psychology; the humanities; and the physical sciences. Considerable skill in many fields is necessary in order to ascertain the probable consequences of the many alternative solutions available to business administrators when confronted with a problem and the need to make a decision. This latter recommendation suggests that a breadth of background and point of view is essential, a breadth not found often enough in executives and one certainly not fostered by the narrow specializations of many collegiate schools of business.

But what are the socioeconomic implications of this somewhat incoherent, yet evolving, approach to business affairs? Many observers fear that such an orientation will accelerate the shift in emphasis away from a laissez-faire, competitive philosophy of economic order. It could be an orientation helping to grease the slide down to socialism or, more likely, to erect a subtle "socialism" of a private variety. We must remember, however, that contemporary American society with its strong organizational character no longer coincides with any great deal of resemblance to the pure competition model of laissez-faire theory. The possibilities of revolutionary change in the structure of the economy necessary in order to make this theory and the facts more nearly coincide seem remote, and the transformation of motivations required is even more visionary. Thus, the changing pattern of the American economy directs us from the pastime of viewing the "heavenly city" of laissez-faire theory to the arduous, dangerous, and complicated task of maintaining a society, democratic in nature, with a wide dispersal of power, yet efficient and dynamic in economic terms, in a modern industrial environment. The social responsibility viewpoint shows some promise of serving as a conceptual compass by which we can try to perform this task, supplementing, not transplanting as a perfect salvation, the control devices of intra- and inter-industry competition, countervailing power, and government action—though work to add precision and meaning to the viewpoint has only just begun.

A list of "Suggested Readings" pertaining to the social responsibility of businessmen concept may be obtained by writing to the Bureau of Business and Economic Research, School of Business Administration of Georgia State College of Business Administration.